CSX Corp. provides rail, intermodal and rail-to-truck trainload services. Its CSX Transportation subsidiary operates a 20,000-mile rail network in the eastern U.S., connecting 23 states, the District of Columbia and two Canadian provinces. CSX Intermodal Inc. is a stand-alone integrated intermodal company serving customers with its own truck and terminal operations and a dedicated domestic container fleet. The company employs approximately 19,000 people. The shares are a component of the S&P 500.

Analyst's Notes

Analysis by John Eade, October 21, 2021

ARGUS RATING: BUY

- Raising target price
- CSX shares have outperformed the market during the past quarter, gaining 13%, compared to a 5% advance for the S&P 500.
- We like CSX on a macro basis: the rail industry has been on a secular growth path compared to other transport options - i.e., water, pipelines, trucks - for the past 20 years.
- On a micro basis, we like the company's history of raising the dividend and buying back stock.
- In terms of valuation, blending our approaches, we arrive at our new target price of $39.

INVESTMENT THESIS

Our rating on CSX Corp. (NYSE: CSX) is BUY. CSX is among the most efficient operators in the rail industry, which has been on a secular growth path compared to other transport options - i.e., water, pipelines, trucks - for the past 20 years. Prior to the pandemic, the company had been benefiting from a recovery in several key markets, including agricultural & food products, minerals and forest products. Though the virus had a negative impact on results in 2020, profits are recovering and should continue to improve in 2022. The balance sheet is solid and the company has a history of paying dividends and buying back stock. On the other side of the COVID crisis, domestic supply chain will be more important than ever to customers, and CSX is a critical link. Our target price on the CSX shares is now $39.

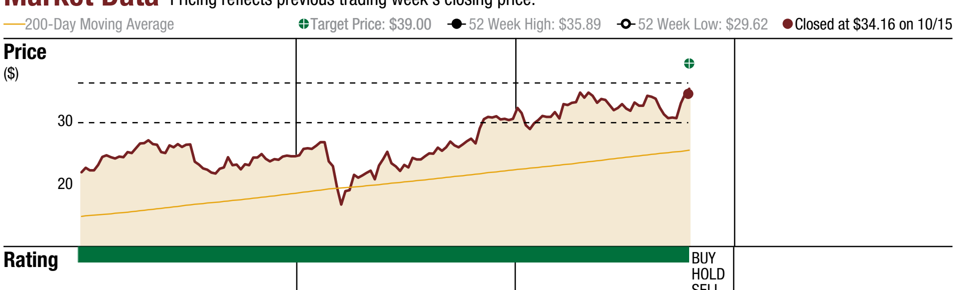
RECENT DEVELOPMENTS

CSX shares have outperformed the market during the past quarter, gaining 13%, compared to a 5% advance for the S&P 500. Over the past year, they have performed in line with the benchmark, rising 32%. CSX has outperformed the industry ETF IYJ over the past year and over the past five years. The beta on CSX shares is around 1.02.

The company recently reported 3Q EPS that rose 34% year-over-year and topped analyst expectations. Revenue of $3.3 billion rose 24% year-over-year. Volume rose 3%,

Market Data

Pricing reflects previous trading week's closing price.



EPS ($)	Q1	Q2	Q3	Q4
2019 Quarterly	1.02	1.08	1.08	0.99
2019 Annual	4.17			
2020 Quarterly	0.33	0.22	0.32	0.35
2020 Annual	1.22			
2021 Quarterly	0.32	0.40	0.40	0.38
2021 Annual	1.55 (Estimate)			
2022 Quarterly	0.36	0.45	0.45	0.43
2022 Annual	1.75 (Estimate)			

Revenue ($ in Bil.)	Q1	Q2	Q3	Q4
2019 Quarterly	3.0	3.1	3.0	2.9
2019 Annual	12.0			
2020 Quarterly	2.9	2.2	2.7	2.8
2020 Annual	10.6			
2021 Quarterly	3.1	3.0	2.9	3.0
2021 Annual	12.0 (Estimate)			
2022 Quarterly	3.3	3.2	3.1	3.1
2022 Annual	12.7 (Estimate)			

FY ends Dec 31

Argus Recommendations

Twelve Month Rating	SELL	HOLD	**BUY**
Five Year Rating	SELL	HOLD	**BUY**
Sector Rating	Under Weight	Market Weight	**Over Weight**

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 72% Buy, 28% Hold.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview

Price	$35.01
Target Price	$39.00
52 Week Price Range	$25.13 to $35.89
Shares Outstanding	2.25 Billion
Dividend	$0.37

Sector Overview

Sector	Industrials
Sector Rating	OVER WEIGHT
Total % of S&P 500 Market Cap.	8.00%

Financial Strength

Financial Strength Rating	MEDIUM
Debt/Capital Ratio	56.8%
Return on Equity	25.3%
Net Margin	30.3%
Payout Ratio	0.24
Current Ratio	2.20
Revenue	$11.92 Billion
After-Tax Income	$3.61 Billion

Valuation

Current FY P/E	22.59
Prior FY P/E	28.70
Price/Sales	6.62
Price/Book	5.90
Book Value/Share	$5.93
Market Capitalization	$78.93 Billion

Forecasted Growth

1 Year EPS Growth Forecast
27.05%

5 Year EPS Growth Forecast
10.00%

1 Year Dividend Growth Forecast
5.71%

Risk

Beta	1.02
Institutional Ownership	72.77%

Please see important information about this report on page 5

Analyst's Notes...Continued

while pricing was up 21% per unit. The operating ratio of 56.4% improved by 50 basis points from the prior year's results. Diluted EPS was $0.43, above the Street consensus of $0.38. For the nine months of the year, the company has earned $1.14 per share on a pro forma basis. (On a GAAP basis in 2Q, CSX earned $0.52 per share, but that included a $0.12 per share benefit from an asset sale. We have taken the asset-sale benefit out of results to focus on ongoing operations.)

CSX typically provides an outlook to investors with a focus on revenue and operating costs. For 2021, management expects CSX to grow volumes faster than the prevailing GDP growth rate, and, with improved pricing, to deliver double-digit full-year revenue growth.

In addition to organic growth, the company also has a growth-by-acquisition strategy. In 2Q, CSX completed its acquisition of Quality Carriers Inc., a leading North American provider of bulk liquid chemicals truck transportation. Terms were not disclosed.

EARNINGS & GROWTH ANALYSIS

CSX now has four primary segments: Merchandise (57% of 3Q revenue), Intermodal (16%), Coal (14%) and Trucking (6%). The Merchandise group transports materials such as food and agricultural goods, fertilizers, chemicals, metals, automotive products, minerals and forest products. The Coal business transports domestic coal, coke, and iron ore to power plants and steel manufacturers; and ships export coal to deepwater port facilities. The Intermodal segment combines the efficiency of rail transportation with the short-haul flexibility of trucks. The Trucking segment includes the recently acquired Quality Carriers operations. Recent pro forma results and forward outlooks by segment are summarized below.

In the Merchandise segment, 3Q revenue rose 24% (compared to a gain of 26% in the prior quarter), with volume up 3%. Volume trends were mixed in 3Q, with strength in metals and equipment, forest products and minerals, offset by weakness in the automotive and agricultural and food products groups. Based on global economic conditions, we expect to see volume trends for Merchandise improve modestly into 1H22.

In Intermodal, sales were up 14% as businesses replenished inventories. Volume rose 4%, while pricing was up 10%. Intermodal increased due to higher international shipments from strong demand, inventory replenishments and rail volume growth from East Coast ports. We expect Intermodal to continue to post strong growth into 1H22.

Coal segment revenue rose 39% in 3Q, reflecting a 16% increase in volume. Coal increased due to higher shipments across international export, domestic utility, and steel and industrial coal. We look for a rebound in sales growth in the Coal segment in 2021, compared to a 33% decline in 2020, an 8% decline in 2019 and 7% growth in 2018.

Trucking segment revenue was $200 million in the period.

Growth & Valuation Analysis

GROWTH ANALYSIS					
($ in Millions, except per share data)	2016	2017	2018	2019	2020
Revenue	11,069	11,408	12,250	11,937	10,583
COGS	7,706	7,667	7,381	6,972	6,221
Gross Profit	3,363	3,741	4,869	4,965	4,362
SG&A	—	—	—	—	—
R&D	—	—	—	—	—
Operating Income	3,363	3,741	4,869	4,965	4,362
Interest Expense	569	533	607	689	737
Pretax Income	2,741	3,142	4,304	4,316	3,627
Income Taxes	1,027	-2,329	995	985	862
Tax Rate (%)	37	—	23	23	24
Net Income	1,714	5,471	3,309	3,331	2,765
Diluted Shares Outstanding	2,844	2,742	2,583	2,394	2,304
EPS	0.60	2.00	1.28	1.39	1.20
Dividend	0.24	0.26	0.29	0.32	0.35
GROWTH RATES (%)					
Revenue	-6.3	3.1	7.4	-2.6	-11.3
Operating Income	-5.1	11.2	30.2	2.0	-12.1
Net Income	-12.9	219.2	-39.5	0.7	-17.0
EPS	-9.5	230.9	-35.9	8.6	-13.7
Dividend	2.9	8.3	12.8	9.1	8.3
Sustainable Growth Rate	8.9	9.7	47.4	20.6	16.2
VALUATION ANALYSIS					
Price: High	$12.47	$19.45	$25.41	$26.91	$31.23
Price: Low	$7.11	$11.86	$16.14	$20.01	$15.60
Price/Sales: High-Low	3.2 - 1.8	4.7 - 2.9	5.4 - 3.4	5.4 - 4.0	6.8 - 3.4
P/E: High-Low	20.7 - 11.8	9.7 - 5.9	19.9 - 12.6	19.4 - 14.4	26.0 - 13.0
Price/Cash Flow: High-Low	10.7 - 6.1	15.8 - 9.6	16.6 - 10.6	13.2 - 9.8	17.0 - 8.5

Financial & Risk Analysis

FINANCIAL STRENGTH	2018	2019	2020
Cash ($ in Millions)	858	958	3,129
Working Capital ($ in Millions)	650	1,127	2,422
Current Ratio	1.34	1.52	2.20
LT Debt/Equity Ratio (%)	117.3	139.1	127.9
Total Debt/Equity Ratio (%)	117.5	141.2	131.0
RATIOS (%)			
Gross Profit Margin	39.7	41.6	41.2
Operating Margin	39.7	41.6	41.2
Net Margin	27.0	27.9	26.1
Return On Assets	9.1	8.9	7.1
Return On Equity	24.3	27.3	22.2
RISK ANALYSIS			
Cash Cycle (days)	-4.6	-14.0	-12.5
Cash Flow/Cap Ex	2.7	2.9	2.6
Oper. Income/Int. Exp. (ratio)	7.7	6.9	5.8
Payout Ratio	39.2	11.7	22.4

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Analyst's Notes...Continued

Turning to expenses, the operating ratio (expenses/revenues) is widely used by railroad investors to assess efficiency; a lower operating ratio signals a rising operating margin and is positive. Former CEO Hunter Harrison was legendary in the industry for his Precision Scheduled Railroading model, which sharply reduced costs at other railroads. The model, now being run by CEO James Foote, focuses on productivity gains that come from streamlining operations and fully leveraging railroad assets, including cars, train crews and yards. In the latest quarter, CSX's adjusted operating ratio was 56.4%, a year-over-year improvement of 50 basis points. Management noted that while fuel efficiency improved year-over-year in 3Q, train velocity declined and terminal dwell increased.

Based on the 3Q EPS surprise, as well as our forecasts for volume and margin trends, we are raising our 2021 adjusted EPS estimate to $1.55 from $1.50. Our estimate implies an earnings increase of 28% for the year. We look for growth to continue in 2022 and are raising our preliminary adjusted EPS estimate from $1.70 to $1.75.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on CSX is Medium, the midpoint on our five-point scale. The company receives average scores on our main criteria of debt levels, fixed-cost coverage, earnings quality, cash flow generation and profitability.

The company had $2.2 billion in cash and short-term investments at the end of the most recent quarter. Total debt was $16.43 billion, or 55% of total capital. Cash flow covered net interest expense by a factor of 10 in the quarter. Free cash flow before dividends rose 49% through the first three quarters, and the free cash flow conversion ratio was a healthy 102%.

CSX pays a dividend. In February 2021, management raised the quarterly payout by 8% to $0.093 per share. The current yield is about 1.1%. We think the dividend is secure and poised for continued growth. Our dividend estimates are $0.37 for 2021 and $0.41 for 2022.

The company also buys back stock.

MANAGEMENT & RISKS

CSX has seen major changes in the executive suite in recent years. The drama began on January 18, 2017, when an activist investor and a legendary railroad executive acquired a 4% stake in the company and began pushing for changes. The legendary executive was Hunter Harrison, the former CEO of both Canadian Pacific (CP: HOLD) and Canadian National Railroad (CNI: HOLD). During his CEO stints at those companies, he averaged total shareholder returns of approximately 335% by deploying his Precision Scheduled Railroading process.

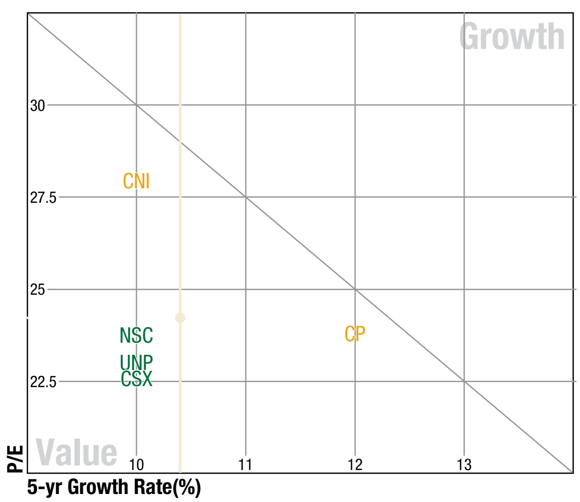
Mr. Harrison became CEO of CSX on March 6, 2017, and the activist investor, Paul Hilal of Mantle Ridge, joined the board of directors.

Mr. Harrison's Precision Scheduled Railroading focuses on

Peer & Industry Analysis

The graphics in this section are designed to allow investors to compare CSX versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- **The scatterplot shows how CSX stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.**
- **The table builds on the scatterplot by displaying more financial information.**
- **The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how CSX might fit into or modify a diversified portfolio.**



Ticker	Company	Market Cap ($ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
UNP	Union Pacific Corp.	150,823	10.0	23.0	29.2	12.4	BUY
CNI	Canadian National Railway Co.	94,108	10.0	27.9	32.8	11.6	HOLD
CSX	CSX Corp.	78,930	10.0	22.6	30.3	12.9	BUY
NSC	Norfolk Southern Corp.	69,844	10.0	23.8	26.0	11.8	BUY
CP	Canadian Pacific Railway Ltd	50,007	12.0	23.8	39.2	9.5	HOLD
Peer Average		**88,742**	**10.4**	**24.2**	**31.5**	**11.6**	

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Analyst's Notes...Continued

seven factors: minimizing car dwell time in yards; minimizing car classifications; using multiple traffic outlets; running general-purpose trains; balancing train movements by direction; minimizing power requirements; and striving for steady workflow.

Mr. Harrison unexpectedly passed away in December 2017. The CSX board appointed James M. Foote as president and CEO on December 22, 2017. Mr. Foote, who had served as acting CEO when Mr. Harrison went on medical leave, was also appointed to the CSX board. CEO Foote had worked with Mr. Harrison for 10 years and had extensive experience with the Precision Scheduled Railroading process. Kevin Boone has been CFO since 2019.

Investors in CSX shares face numerous risks. Rail carriers are highly sensitive to the macroeconomic environment. They also face risks from fluctuating fuel prices, fuel hedges, bad weather, strikes and other labor actions.

CSX also faces risks related to government regulation, and may incur extraordinary costs related to positive train control systems, the transportation of flammable liquids, and braking standards.

COMPANY DESCRIPTION

CSX Corp. provides rail, intermodal and rail-to-truck trainload services. Its CSX Transportation subsidiary operates a 20,000-mile rail network in the eastern U.S., connecting 23 states, the District of Columbia and two Canadian provinces. CSX Intermodal Inc. is a stand-alone integrated intermodal company serving customers with its own truck and terminal operations and a dedicated domestic container fleet. The company employs approximately 19,000 people. The shares are a component of the S&P 500.

VALUATION

CSX shares appear attractively valued at current prices near $35, near the high end of their 52-week range of $25-$36. From a technical perspective, the shares have been in a bullish pattern of higher highs and higher lows since 2017.

In valuing the stock on a fundamental basis, we use comparative peer multiple analysis as well as historical analysis and dividend discount modeling. CSX shares are trading at 20-times projected 2022 earnings, near the high end of the five-year range of 10-22. They are trading at the high end of their historical range of 2-7 on price/sales, and the current dividend yield of 1.1% is below the midpoint of the five-year range. The shares are trading at a modest discount to the peer group based on P/E and price/cash flow. We see value in CSX shares, and are raising our target price to $39.

On October 21, BUY-rated CSX closed at $35.01, up $0.55.

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About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

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